FDIC State Profile

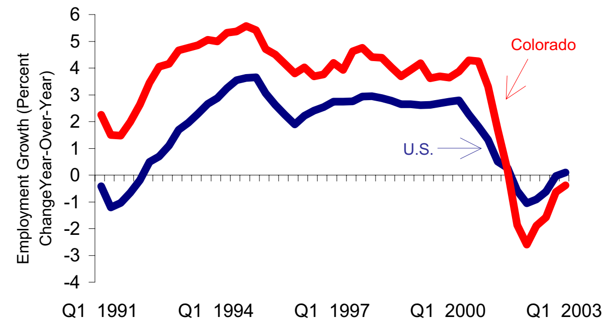
SUMMER 2003

Colorado

The downturn in the high-tech sector continues to adversely affect the Colorado economy.

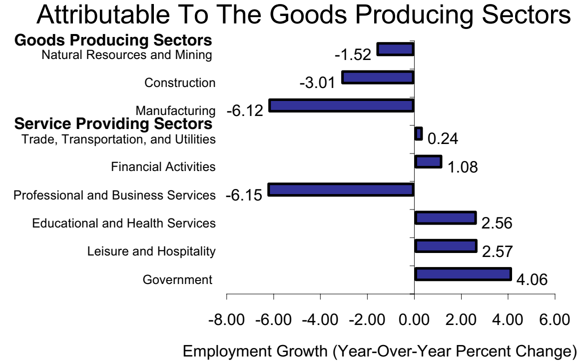
- Following a period of strong employment growth relative to the nation during the 1990s, the 2001 recession resulted in a rate of job loss in Colorado that exceeded the nation beginning in fourth quarter 2001 (see **Chart 1**). Indeed, Colorado was among the ten fastest-growing states in terms of employment growth throughout much of the 1990s, but during the 2001 recession fell among the bottom ten performers. The unemployment situation in Colorado has changed greatly since the high-tech boom of the late 1990s, when Colorado's jobless rate bottomed at 2.6 percent in January 2001. The state's unemployment rate has doubled since, and is currently at 5.8 percent in May 2003, almost parallel that of the nation.
- Newly revised employment data from the Bureau of Labor Statistics show the construction and manufacturing sectors have suffered the majority of stress in the state's economy (see **Chart 2**). The manufacturing sector reported year-to-date job losses of 6.12 percent. The decline in demand for high-tech goods and the carryover of high-tech inventory from the build up of the late 1990s are the primary contributor to these losses. The professional and business services sector also posted large year-to-date job losses (6.15 percent) because of the contraction in demand for high-tech business services and the tepid economic recovery.
- Sluggish employment growth, three consecutive years of declining stock market values, contractions in the manufacturing and high-tech sectors, and soaring health care costs have hurt state budget revenues. The 2003 budget gap is estimated to be $803 million or 13.2 percent of the general state budget. In response, the governor is proposing 10 percent spending reductions in education, Medicaid, and corrections. These cuts will disproportionately affect areas with large shares of employment in local and state government.
- Future prospects for the defense sector represent a positive for the Colorado economy. Increased defense spending will help support local aerospace firms and military suppliers. Although unlikely to pull the state out of its current malaise, a stronger defense sector should help mitigate weakness in other areas of the economy.
- The Great Plains and Western U.S. experienced severe drought conditions in 2002. Cattle-producing areas have been among the hardest hit. The majority of Colorado's agricultural receipts (54.8 percent) are generated by the cattle industry. The lack of rainfall may again cause many ranchers to liquidate herds because of poor grazing conditions, causing prices to decline. In January 2003, $3.1 billion in federal drought relief was approved. The amount of federal drought relief earmarked for cattle producers, however, was only $250 million (8 percent of total funds available). This amount of aid does not sufficiently cover livestock producers' drought related losses.

Chart 1: The Rate of Job Losses in Colorado Continues to Exceed That of the Nation



Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: Job Losses In Colorado Are Mainly Attributable To The Goods Producing Sectors



Source: Bureau of Labor Statistics (Haver Analytics)

Despite a sluggish Colorado economy, insured institutions headquartered in the state have performed well during the past year.

- The average return-on-assets (ROA) ratio for the state was 1.55 percent for the calendar year ending December 31, 2002, the third highest rate in the past 10 years. Additionally, past-due and charge-off rates are within historical norms, allowing stable provisions to the allowance for loan and lease losses.

- Interest rate risk is an area to watch. Historically low short-term interest rates combined with an upward-sloping yield curve have allowed the average net interest margin for Colorado institutions to remain stable. However, if short-term rates fall further, drops in asset yields may not be matched by a drop in costs since deposit rates may be near effective floors.

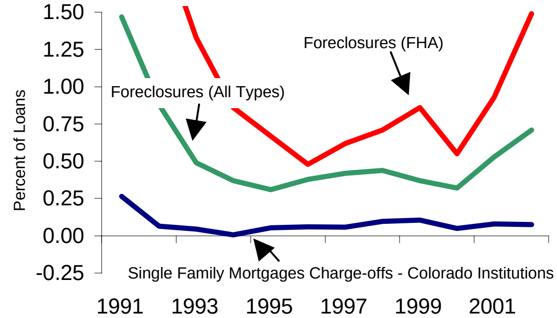
- Residential real estate in Colorado is showing some signs of stress as evidenced by rising home foreclosure rates (see **Chart 3**). Moreover, deterioration in FHA and VA mortgages is the greatest since 1991. Residential housing markets in Denver, Boulder, and Colorado Springs have been subjected to negative job growth and overbuilding that has caused home price growth to slow considerably in recent quarters, particularly at the high end of the housing market. Insured institution charge-off rates have remained relatively low, despite a weakening residential market. Although past-due rates have increased 120 basis points to 2.38 percent from a year ago, they are still close to the national average for all insured institutions.

- Office vacancy rates in the Denver MSA increased to 20.8 percent as of fourth quarter 2002, up 10.8 percentage points from two years earlier (compared to a 7.9 percentage point increase nationwide for the same period). Denver area industrial vacancy rates also have risen to the highest level in a decade but remain just 80 basis points higher than the nation. Despite rising vacancy rates, insured institutions headquartered in Colorado have increased commercial real estate (CRE) exposures[1] to the highest level on record and the 9th highest rate in the nation (see **Chart 4**). Colorado bank and thrift CRE loan past-due and charge-off rates are increasing and were at relatively high levels as of fourth quarter 2002, but are still below the national levels. While most of the banks and thrifts headquartered in Colorado are not lenders for the largest CRE projects, rising vacancies and increasing unemployment may still have negative implications for community bank CRE loan portfolios.

- In light of weaknesses in the cattle and feed grain industries, Colorado agricultural institutions reported mixed results. The average ROA for the 32 Colorado agricultural banks was 1.32 percent for 2002, the second lowest profitability measure in the past 10 years. The core capital (leverage) ratio decreased 50 basis points to 9.73 percent during 2002, falling below the national average. On a positive note, bank portfolios have not experienced any significant weakness with past-due and charge-off levels remaining at the low end of decade ranges, primarily because of record government payments and drought assistance.

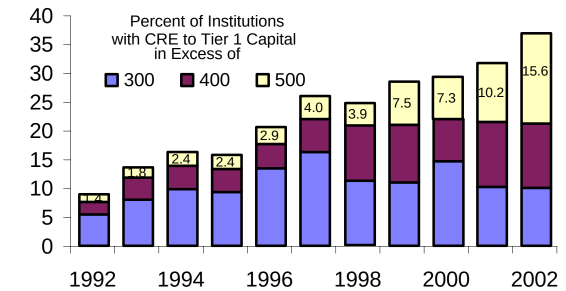
[1] Commercial real estate is defined as nonresidential real estate, multifamily, plus construction and development.

Chart 3: Colorado Foreclosures Rise While Bank Charge-Offs Remain Flat



Source: Bank and Thrift Call Reports, Mortgage Bankers Assoc. (Haver Analytics)

Chart 4: Colorado Commercial Real Estate Loan Exposure Is At Record Levels Despite Weakening Market Fundamentals



Source: Bank and Thrift Call Reports, Data as of Year End

Colorado at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	179	186	191	200	206
Total Assets (in thousands)	50,351,777	50,884,051	47,388,845	42,763,736	37,124,174
New Institutions (# < 3 years)	9	9	9	13	14
New Institutions (# < 9 years)	25	26	24	26	26

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.20	8.22	8.48	8.42	8.52

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.80%	1.62%	1.34%	1.23%	1.55%
Past-Due and Nonaccrual >= 5%	18	14	14	11	24
ALLL/Total Loans (median %)	1.25%	1.22%	1.13%	1.16%	1.23%
ALLL/Noncurrent Loans (median multiple)	2.27	2.30	3.34	2.86	2.58
Net Loan Losses/Loans (aggregate)	0.31%	0.33%	0.32%	0.46%	0.49%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	10	13	9	14	13
Percent Unprofitable	5.59%	6.99%	4.71%	7.00%	6.31%
Return on Assets (median %)	1.24	1.31	1.27	1.25	1.28
25th Percentile	0.73	0.73	0.87	0.89	0.90
Net Interest Margin (median %)	4.64%	4.78%	5.08%	5.03%	5.11%
Yield on Earning Assets (median)	6.69%	8.06%	8.66%	8.18%	8.44%
Cost of Funding Earning Assets (median)	1.90%	3.08%	3.60%	3.12%	3.29%
Provisions to Avg. Assets (median)	0.15%	0.16%	0.13%	0.13%	0.13%
Noninterest Income to Avg. Assets (median)	0.85%	0.86%	0.84%	0.87%	0.93%
Overhead to Avg. Assets (median)	3.40%	3.51%	3.47%	3.47%	3.50%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	71.15%	73.50%	74.81%	73.70%	67.72%
Loans to Assets (median %)	61.24%	63.32%	64.01%	61.33%	58.43%
Brokered Deposits (# of Institutions)	23	24	26	20	27
Bro. Deps./Assets (median for above inst.)	4.29%	4.31%	3.40%	2.78%	1.43%
Noncore Funding to Assets (median)	14.93%	15.69%	14.64%	12.44%	11.01%
Core Funding to Assets (median)	73.76%	73.60%	74.49%	76.18%	77.96%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	93	97	97	103	106
National	48	52	56	60	63
State Member	28	27	28	26	26
S&L	9	9	9	9	9
Savings Bank	1	1	1	2	2
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	88	8,865,218	49.16%	17.61%
Denver CO PMSA	53	32,102,007	29.61%	63.76%
Colorado Springs CO	15	2,040,386	8.38%	4.05%
Ft Collins-Loveland CO	7	3,518,649	3.91%	6.99%
Boulder-Longmont CO PMSA	7	2,356,606	3.91%	4.68%
Greeley CO PMSA	6	1,069,275	3.35%	2.12%
Pueblo CO	3	399,636	1.68%	0.79%